BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 AND AUDITORS' REPORT

Building a better working world

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Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank AlJazira
(a Saudi Joint Stock Company)
Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from 1 to 44. We have not audited note 44, nor the information related to "Basel III Pillar 3 Disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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KPMG Al Fozan & Partners

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
Licence Number 414

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
Certified Public Accountant
Licence Number 382

February 18, 2016
Corresponding to Jumada Al Awal 9, 1437H

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
ASSETS			
Cash and balances with SAMA	3	**3,728,044**	6,552,141
Due from banks and other financial institutions	4	**4,691,538**	4,908,991
Investments	5	**11,201,821**	11,334,970
Loans and advances, net	6	**41,863,473**	41,244,551
Investment in an associate	7	**128,334**	125,588
Other real estate	6(e)	**44,126**	660,097
Property and equipment, net	8	**679,088**	598,920
Other assets	9	**927,710**	1,128,671
Total assets		**63,264,134**	66,553,929
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**4,054,511**	3,736,476
Customers' deposits	12	**49,673,599**	54,569,273
Subordinated Sukuk	13	**1,000,000**	1,000,000
Other liabilities	14	**1,122,555**	1,090,134
Total liabilities		**55,850,665**	60,395,883
SHAREHOLDERS' EQUITY			
Share capital	15	**4,000,000**	4,000,000
Statutory reserve	16	**1,727,119**	1,405,500
General reserve	16	**68,000**	68,000
Other reserves	17	**(172,656)**	(141,317)
Retained earnings		**1,791,006**	825,863
Total shareholders' equity		**7,413,469**	6,158,046
Total liabilities and shareholders' equity		**63,264,134**	66,553,929

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
Special commission income	19	**2,135,479**	1,954,869
Special commission expense	19	**(534,939)**	(509,787)
Net special commission income		**1,600,540**	1,445,082
Fees and commission income, net	20	**629,869**	648,052
Exchange income, net		**90,065**	56,822
Trading income, net	21	**11,171**	30,444
Dividend income	22	**1,874**	2,670
Gain on non-trading investments	23	**250**	3,684
Gain from sale of other real estate	24	**572,646**	29,772
Other operating income	25	**15,106**	9,719
Total operating income		**2,921,521**	2,226,245
Salaries and employee-related expenses	36	**908,901**	721,872
Rent and premises-related expenses		**136,492**	112,514
Depreciation	8	**79,014**	79,394
Other general and administrative expenses		**457,870**	356,399
Impairment charge for credit losses, net	6(c)	**53,063**	383,107
Other operating expenses		**2,165**	4,331
Total operating expenses		**1,637,505**	1,657,617
Operating income		**1,284,016**	568,628
Share in profit of an associate	7	**3,103**	3,839
Net income for the year		**1,287,119**	572,467
Basic and diluted earnings per share (expressed in SR per share)	26	**3.22**	1.43

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
Net income for the year		**1,287,119**	572,467
Other comprehensive income:			
Items to be reclassified to statement of income in subsequent periods:			
Cash flow hedges:			
Fair value loss on cash flow hedges	17	**(18,684)**	(146,939)
Net amount transferred to consolidated statement of income	17	**627**	2,819
Items not to be reclassified to statement of income in subsequent periods:			
Net changes in fair value of investments classified as fair value through other comprehensive income (FVTOCI)		**1,189**	1,154
Total other comprehensive loss for the year		**(16,868)**	(142,966)
Share in Zakat of an associate	7	**(357)**	-
Total comprehensive income for the year		**1,269,894**	429,501

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

2015	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2015		**4,000,000**	**1,405,500**	**68,000**	**(141,317)**	**825,863**	**6,158,046**
Net income for the year		-	-	-	-	**1,287,119**	**1,287,119**
Other comprehensive loss for the year		-	-	-	**(16,868)**	-	**(16,868)**
Share of Zakat of an associate	7	-	-	-	-	**(357)**	**(357)**
Total comprehensive (loss) / income for the year		-	-	-	**(16,868)**	**1,286,762**	**1,269,894**
Transfer to statutory reserve	16	-	**321,619**	-	-	**(321,619)**	-
Other	17				**(14,471)**	-	**(14,471)**
Balance at December 31, 2015		**4,000,000**	**1,727,119**	**68,000**	**(172,656)**	**1,791,006**	**7,413,469**
2014							
Balance at January 1, 2014		3,000,000	1,762,500	68,000	1,649	896,396	5,728,545
Net income for the year		-	-	-	-	572,467	572,467
Other comprehensive loss for the year		-	-	-	(142,966)	-	(142,966)
Total comprehensive (loss) / income for the year		-	-	-	(142,966)	572,467	429,501
Transfer to statutory reserve	16	-	143,000	-	-	(143,000)	-
Issuance of bonus share	15	1,000,000	(500,000)	-	-	(500,000)	-
Balance at December 31, 2014		4,000,000	1,405,500	68,000	(141,317)	825,863	6,158,046

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Notes	2015 SR'000	2014 SR'000
OPERATING ACTIVITIES			
Net income for the year		**1,287,119**	572,467
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net	21	**(11,171)**	(30,444)
Gain on non-trading investments	23	**(250)**	(3,684)
Depreciation	8	**79,014**	79,394
Dividend income	22	**(1,874)**	(2,670)
(Gain) / loss on disposal of property and equipment, net	25	**(3,299)**	884
Impairment charge for credit losses, net	6 c	**53,063**	383,107
Share of profit of an associate	7	**(3,103)**	(3,839)
		1,399,499	995,215
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**113,545**	(446,525)
Due from banks and other financial institutions maturing after ninety days from the date of placement		**900,000**	(918,750)
Investments held as FVTIS		**48,319**	(31,185)
Loans and advances		**(671,985)**	(6,632,899)
Other real estate, net		**615,971**	12,388
Other assets		**198,014**	(337,483)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**318,035**	(622,262)
Customers' deposits		**(4,895,674)**	6,486,748
Other liabilities		**3,673**	55,556
Net cash used in operating activities		**(1,970,603)**	(1,439,197)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		**440,260**	3,408,244
Acquisition of amortised cost investments		**(343,653)**	(2,084,381)
Acquisition of property and equipment	8	**(163,580)**	(171,487)
Proceeds from sale of property and equipment		**7,697**	55
Dividends received	22	**1,874**	2,670
Net cash (used in) / from investing activities		**(57,402)**	1,155,101
Net decrease in cash and cash equivalents		**(2,028,005)**	(284,096)
Cash and cash equivalents at the beginning of the year		**6,928,904**	7,213,000
Cash and cash equivalents at the end of the year	28	**4,900,899**	6,928,904
Special commission income received during the year		**1,878,319**	1,670,308
Special commission expense paid during the year		**306,622**	330,892

Supplemental non-cash information

Net changes in fair value and transfers to the consolidated statement of income		**(18,057)**	(144,120)

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 76 branches (2014: 70 branches) in the Kingdom of Saudi Arabia and employed 2,176 staff (2014: 2,015 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda District, Malik Road, P.O. Box 6277
Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Tadawul in Kingdom of Saudi Arabia.

The Bank's subsidiaries and an associate are as follows:

Subsidiary	**Country of incorporation**	**Nature of business**	**Ownership (direct and indirect) December 31, 2015**	Ownership (direct and indirect) December 31, 2014
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collaterals on behalf of the Bank	**100%**	100%
Associate				
AlJazira Takaful Ta'wuni Company	Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency (SAMA), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Income Statement (FVTIS) and Fair Value through Other Comprehensive Income Statement (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

iii. Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in SR has been rounded off to the nearest thousand.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of AlJazira Capital Company and Aman Development and Real Estate Investment Company is also the Saudi Arabian Riyal (SR).

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

i. the Group has power over an entity;
ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

i. Subsidiaries (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

ii. Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank’s equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv. Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group’s share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in ‘share of profit / (loss) of an associate’ in the consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which have had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

a) Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.

b) Annual improvements to IFRS 2010-2012 and 2011-2013 cycles applicable for annual periods beginning on or after 1 July 2014. A summary of the amendments is contained as under:

   a) IFRS 2 amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.
   b) IFRS 3 – "Business Combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.
   c) IFRS 8 – "Operating Segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
   d) IFRS 13 has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.
   e) IAS 16 – "Property Plant and Equipment" and IAS 38 – "Intangible Assets": – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
   f) IAS 24 – "Related Party Disclosures"– the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.
   g) IAS 40 - "Investment Property" clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Business model for managing financial assets

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities, such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way the business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

ii. Contractual cash flows of financial assets

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and commission income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii. Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in the consolidated statement of income and reflected in impairment for credit losses. Commission on impaired assets continues to be recognised until its maturity for all consumer loans.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Loans and advances are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the financing has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

The carrying amount of the asset is adjusted through the use of a allowance for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii. Impairment of financial assets (continued)

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

The Group also considers evidence of impairment at a collective assets level. The collective allowance for impairment could be based on following criteria i.e. deterioration in internal grading, external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through income statement (FVTIS) and fair value through other comprehensive income (FVTOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (d).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iv. Fair value of financial instruments (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 34).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

v. Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

v. Impairment of non-financial assets (continued)

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the Portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

vi. Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager.

vii. Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

viii. Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date are accounted for in the same way as acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

f) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i. Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income, net. Derivatives held for trading also includes those derivatives, which do not qualify for hedge accounting.

ii. Embedded derivative

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

iii. Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

For the purpose of hedge accounting, hedges are classified into following two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

Cash flow hedge

Cash flow hedges are used to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or highly probable forecast transaction and could affect the reported gain or loss.

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis. The Group designate profit rate swaps as hedging against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the “net cash flow” exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancings and repricings. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in “trading income, net”. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Foreign currencies

Transactions denominated in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into SR at the spot exchange rates prevailing at the year end.

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

h) Offsetting financial instruments

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a legally currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are not set off in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

i) Revenue /expense recognition

Special commission income and expenses
Special commission income and expenses arising on financial assets and financial liabilities, except for those classified as FVTIS and FVTOCI, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income using the effective yield basis and include premiums amortised and discounts accreted during the year.

The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective yield rate and the change in carrying amount is recorded as income or expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue /expense recognition (continued)

Special commission income and expenses (continued)

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment allowances. The calculation of the effective yield rate takes into account all contractual terms of the financial instrument and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective yield rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense adjusted by the net special commission on the swap to the extent the hedge is considered to be effective.

Exchange income / (loss)
Exchange income / (loss) is recognised when earned / incurred. See note 2(g).

Fees and commissions
Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield rate on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis i.e. as and when the services are rendered. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income
Dividend income is recognised when the right to receive income is established.

j) Trading income / (loss), net

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets and financial liabilities designated as FVTIS and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

k) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "SAMA cash borrowing" under "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement using the effective yield rate. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Sale and repurchase agreements (continued)

Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

l) Investments

A financial asset is measured initially at fair value plus, for an item not through statement of income, transaction costs that are directly attributable to acquisition or issue. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. At inception, the financial asset is classified at amortized cost or fair value.

i. Investments in debt instruments classified as amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether the management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

ii. Financial assets classified as Fair Value Through Income Statement (FVTIS)

Investments in equity instruments are classified as FVTIS, unless the Group designates an investment that is not held for trading as fair value through other comprehensive income (FVTOCI) on initial recognition.

A financial asset or financial liability is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Debt instruments that do not meet the amortised cost criteria are measured as FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as FVTIS are measured at fair value through income statement.

A debt instrument may be designated as FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as FVTIS on initial recognition is irrevocable.

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Commission income on debt instruments as FVTIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVTIS is recognised in the consolidated statement of income when the Group’s right to receive the dividend is established and is included in the consolidated statement of income.

iii. Investment in equity instruments designated as Fair Value Through Other Comprehensive Income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI. Designation as FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments as FVTOCI are initially measured at fair value plus transaction costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

iii. Investment in equity instruments designated as fair value through other comprehensive income (FVTOCI) (continued)

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVTIS as FVTOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Fair value reserve includes the cumulative net change in fair value of equity investment measured at FVTOCI. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

m) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value of the consideration given.

Following initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and collective allowances for impairment.

All loans and advances are carried at amortised cost calculated using the effective yield rate.

For presentation purposes, impairment allowance for credit losses is deducted from loans and advances.

n) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amounts written-off and specific allowance for impairment, if any, and a collective allowance for counterparty risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

On derecognition of a financial asset, measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated statement of income.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in other comprehensive income is not reclassified to consolidated statement of income, but is transferred to retained earnings.

p) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due loans and advances and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised the in consolidated statement of income.

q) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, Whichever is shorter
Furniture, equipment and vehicles	4 to10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Property and equipment (continued)

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

r) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

s) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin.

Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in impairment charge for credit losses. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

t) Provisions

Provisions (other than provisions for credit losses and investments) are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Accounting for leases

i. Where the Group is the lessee

Leases entered into by the Group as a lessee are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which the termination takes place.

ii. Where the Group is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under “loans and advances, net”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

v) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair values.

w) Zakat and income tax

Under Saudi Arabian Zakat and Income Tax laws, Zakat and income tax are the liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. Income tax is computed on the foreign shareholder’s share of net income for the year.

Zakat and income taxes, relating to the shareholders of the Bank, are not charged to the Group’s consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is distributed, the amount is accounted for as a receivable from the shareholders and will be deducted from future dividends and a corresponding liability is accounted for as payable to the Department of Zakat and Income Tax (DZIT).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

y) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plans ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses.

Short term benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

z) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Shari'ah compliant (non-interest based) banking products (continued)

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on the customer's promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these financial statements.

3. CASH AND BALANCES WITH SAMA

	2015	2014
	SR'000	SR'000
Cash in hand	**963,111**	728,663
Balances with SAMA:		
Statutory deposit	**2,749,933**	2,863,478
Cash lending	**15,000**	2,960,000
Total	**3,728,044**	6,552,141

In accordance with article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 33). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 SR'000	2014 SR'000
Current accounts	**736,538**	808,991
Money market placements	**3,955,000**	4,100,000
Total	**4,691,538**	4,908,991

The money market placements represent funds placed on Shari'ah compliant (non-interest based) Murabaha basis.

5. INVESTMENTS

a) As of December 31, 2015 investments are classified as follows:

i) Designated as FVTIS

	2015 SR'000		
	Domestic	**International**	**Total**
Mutual funds	**166,955**	**155,026**	**321,981**
Equities	**39,075**	**-**	**39,075**
	206,030	**155,026**	**361,056**

ii) FVTOCI

Equities	**3,250**	**8,370**	**11,620**

iii) Amortised cost

Sukuk investments	**10,829,145**	**-**	**10,829,145**
Grand Total	**11,038,425**	**163,396**	**11,201,821**

5. INVESTMENTS (continued)

b) As of December 31, 2014 investments were classified as follows:

i) Designated as FVTIS

	2014 SR'000		
	Domestic	International	Total
Mutual funds	174,582	154,948	329,530
Equities	68,674	-	68,674
	243,256	154,948	398,204

ii) FVTOCI

Equities	3,250	7,182	10,432

iii) Amortised cost

Sukuk investments	10,926,334	-	10,926,334
Grand Total	11,172,840	162,130	11,334,970

c) The analysis of the composition of investments is as follows:

	2015			2014		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments	**2,867,375**	**7,961,770**	**10,829,145**	2,683,473	8,242,861	10,926,334
Equities	**47,257**	**3,438**	**50,695**	75,668	3,438	79,106
Mutual funds	**321,981**	**-**	**321,981**	329,530	-	329,530
Total Investments	**3,236,613**	**7,965,208**	**11,201,821**	3,088,671	8,246,299	11,334,970

5. INVESTMENTS (continued)

d) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

	2015				2014			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Sukuk investments	**10,829,145**	**23,268**	**(823)**	**10,851,590**	10,926,334	29,063	(4,260)	10,951,137
Total	**10,829,145**	**23,268**	**(823)**	**10,851,590**	10,926,334	29,063	(4,260)	10,951,137

e) The analysis of the Group's investments by nature of counterparty is as follows:

	2015 SR'000	2014 SR'000
Government and quasi Government	**8,158,458**	8,165,646
Corporate	**1,150,418**	1,257,968
Banks and other financial institutions	**1,892,945**	1,911,356
Total	**11,201,821**	11,334,970

The fair values of investments carried at amortised cost are not significantly different from their carrying values. The Sukuk investments (disclosed in note 5d) are quoted in different markets but not actively traded.

Equities reported under FVTOCI includes unquoted shares of SR 3.4 million (2014: SR 3.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

6. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs and credit card balances.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprise the following:

	SR'000			
2015	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**16,077,893**	**25,694,012**	**350,845**	**42,122,750**
Non-performing loans and advances	**155,993**	**199,334**	**-**	**355,327**
Total loans and advances	**16,233,886**	**25,893,346**	**350,845**	**42,478,077**
Impairment allowance for credit losses:				
Specific allowance	**(97,438)**	**(66,193)**	**-**	**(163,631)**
Collective allowance	**(209,891)**	**(241,082)**	**-**	**(450,973)**
Total impairment allowance for credit losses	**(307,329)**	**(307,275)**	**-**	**(614,604)**
Loans and advances, net	**15,926,557**	**25,586,071**	**350,845**	**41,863,473**

	SR'000			
2014	Consumer	Commercial	Others	Total
Performing loans and advances	14,868,491	26,360,158	284,539	41,513,188
Non-performing loans and advances	223,416	146,444	-	369,860
Total loans and advances	15,091,907	26,506,602	284,539	41,883,048
Impairment allowance for credit losses:				
Specific allowance	(172,674)	(50,442)	-	(223,116)
Collective allowance	(182,828)	(232,553)	-	(415,381)
Total impairment allowance for credit losses	(355,502)	(282,995)	-	(638,497)
Loans and advances, net	14,736,405	26,223,607	284,539	41,244,551

Loans and advances, net represents Shari'ah Compliant products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 7.42 billion (2014: SR 9.05 billion).

6. LOANS AND ADVANCES, NET (continued)

b) Movements in impairment allowance for credit losses are as follows:

	SR'000		
2015	**Consumer**	**Commercial**	**Total**
Balance at the beginning of the year	**355,502**	**282,995**	**638,497**
Impairment charge for the year	**121,577**	**25,280**	**146,857**
Bad debts written off during the year	**(126,076)**	**-**	**(126,075)**
Recoveries / reversals of amounts previously provided	**(43,674)**	**(1,000)**	**(44,674)**
Balance at the end of the year	**307,329**	**307,275**	**614,604**

	SR'000		
2014	Consumer	Commercial	Total
Balance at the beginning of the year	216,961	444,466	661,427
Impairment charge for the year	155,241	301,450	456,691
Bad debts written off during the year	(1,255)	(429,917)	(431,172)
Recoveries / reversals of amounts previously provided	(15,445)	(33,004)	(48,449)
Balance at the end of the year	355,502	282,995	638,497

The bad debts written off during the year included receivables against credit cards amounting to SR 13.29 million (2014: SR 43 thousands).

c) Net impairment charge for credit losses for the year in the consolidated statement of income is as follows:

	2015	2014
	SR'000	SR'000
Impairment charge for credit losses for the year	**146,857**	456,691
Recoveries / reversal of amounts previously provided	**(44,674)**	(48,449)
Recoveries of debts previously written off	**(49,120)**	(25,135)
Impairment charge for credit losses, net	**53,063**	383,107

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and impairment allowance for credit losses are as follows:

2015	**Performing SR'000**	**Non performing SR'000**	**Specific allowance for impairment of credit losses SR'000**	**Loans and advances, net SR'000**
Government and quasi Government	**1,189,498**	**-**	**-**	**1,189,498**
Banks and other financial institutions	**804,508**	**-**	**-**	**804,508**
Manufacturing	**6,351,826**	**1,831**	**(458)**	**6,353,199**
Building and construction	**1,512,934**	**8,940**	**(3,605)**	**1,518,269**
Commerce	**9,321,501**	**111,277**	**(57,653)**	**9,375,125**
Transportation and communication	**174,475**	**-**	**-**	**174,475**
Services	**1,130,439**	**60,575**	**-**	**1,191,014**
Consumer loans	**16,077,893**	**155,993**	**(97,438)**	**16,136,448**
Share trading	**2,459,876**	**2,629**	**-**	**2,462,505**
Others	**3,099,800**	**14,082**	**(4,477)**	**3,109,405**
	42,122,750	**355,327**	**(163,631)**	**42,314,446**
Collective allowance	**-**	**-**	**(450,973)**	**(450,973)**
Total	**42,122,750**	**355,327**	**(614,604)**	**41,863,473**

2014	Performing SR'000	Non performing SR'000	Specific allowance for impairment of credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	1,126,077	-	-	1,126,077
Banks and other financial institutions	630,365	-	-	630,365
Manufacturing	6,170,870	-	-	6,170,870
Mining and quarrying	80,684	-	-	80,684
Building and construction	1,358,151	221	-	1,358,372
Commerce	9,124,416	72,919	(49,517)	9,147,818
Transportation and communication	218,190	-	-	218,190
Services	446,061	60,575	-	506,636
Consumer loans	14,868,491	223,417	(172,674)	14,919,234
Share trading	3,403,162	3,269	-	3,406,431
Others	4,086,721	9,459	(925)	4,095,255
	41,513,188	369,860	(223,116)	41,659,932
Collective allowance	-	-	(415,381)	(415,381)
Total	41,513,188	369,860	(638,497)	41,244,551

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and allowance for credit losses are as follows (continued):

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances portfolio. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by the Group against loans and advances by each category are as follows:

	2015	2014
	SR'000	SR'000
Collateral against performing loans	**17,203,999**	17,955,136
Collaterals against non-performing loans	**94,955**	84,434
Total	**17,298,954**	18,039,570

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with an intent to dispose off, after legal recourse, in case of default by the customer.

e) Other real estate, net

		2015	2014
	Note	**SR'000**	SR'000
Balance at the beginning of the year		**660,097**	672,485
Disposals during the year	24	**(615,971)**	(12,388)
Balance at the end of the year		**44,126**	660,097

7. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'wuni Company ("ATT"). The details related to ATT are explained in further details in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2015 is SR 409.4 million (2014: 794.29 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2015 SR'000	2014 SR'000
Total shareholders assets	**368,568**	358,619
Total shareholders liabilities	**(1,900)**	(4,310)
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**128,334**	125,588

	2015 SR'000	2014 SR'000
Total profit for the year	**10,332**	10,970
The Group's share of profit for the year	**3,103**	3,839

The following table summarises the movement of the investment in associate during the year:

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	**125,588**	121,489
Share in profit for the year	**3,103**	3,839
Share of Zakat	**(357)**	-
Other	-	260
Balance at the end of the year	**128,334**	125,588

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	**Leasehold improvements SR'000**	**Furniture, equipment and vehicles SR'000**	**Capital work in progress SR'000**	**Total 2015 SR'000**	Total 2014 SR'000
Cost						
Balance at the beginning of the year	**161,425**	**389,279**	**562,483**	**139,186**	**1,252,373**	1,125,125
Additions during the year	**-**	**8,793**	**26,354**	**128,433**	**163,580**	171,487
Transfers during the year	**-**	**48,762**	**54,974**	**(103,736)**	**-**	-
Disposals during the year	**(3,856)**	**-**	**(6,908)**	**(43)**	**(10,807)**	(44,239)
Balance at the end of the year	**157,569**	**446,834**	**636,903**	**163,840**	**1,405,146**	1,252,373
Accumulated depreciation						
Balance at the beginning of the year	**5,040**	**220,593**	**427,820**	**-**	**653,453**	617,359
Charge for the year	**-**	**24,199**	**54,815**	**-**	**79,014**	79,394
Disposals	**-**	**-**	**(6,409)**	**-**	**(6,409)**	(43,300)
Balance at the end of the year	**5,040**	**244,792**	**476,226**	**-**	**726,058**	653,453
Net book value						
At December 31, 2015	**152,529**	**202,042**	**160,677**	**163,840**	**679,088**	
At December 31, 2014	156,385	168,686	134,663	139,186		598,920

9. OTHER ASSETS

	2015 SR'000	2014 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**12,931**	7,108
Investments	**70,780**	71,007
Loans and advances	**310,374**	306,791
Derivatives	**20,656**	16,918
Total accrued special commission receivable	**414,741**	401,824
Advances, prepayments and other receivables	**133,151**	166,026
Positive fair value of derivatives (note 10)	**176,855**	239,279
Margin deposits against derivatives	**153,356**	248,925
Others	**49,607**	72,617
Total	**927,710**	1,128,671

10. DERIVATIVES

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and strategic hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.1 Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from, price differentials between markets or products.

10.2 Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain special commission rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges. The accounting policy for hedge relationship has been more fully explain in note 2(f) to these consolidated financial statement.

10. DERIVATIVES (continued)

10.2 Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2015 SR'000	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash out flows (liabilities)	**120,898**	**277,845**	**301,083**	**3,232,000**

2014 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash out flows (liabilities)	77,580	173,170	233,983	5,282,196

The gains / (losses) on cash flow hedges reclassified to the consolidated statement of income during the year is as follows:

	2015 SR'000	2014 SR'000
Special commission income	**704**	899
Special commission expense	**(1,331)**	(1,742)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(627)**	(843)

During December 31, 2014, the discontinuation of hedge accounting due to the disposal of both the hedging instruments and the hedged items, resulted in the reclassification of the related cumulative losses of SR 1.976 million from equity to the consolidated statement of income. This amount is included in the losses above. During the year, no discontinuation of hedge accounting took place.

10. DERIVATIVES (continued)

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	**(147,181)**	(3,061)
Losses from change in fair value recognised directly in equity, net (effective portion)	**(18,684)**	(146,939)
Losses removed from equity and transferred to consolidated statement of income	**627**	2,819
Balance at the end of the year	**(165,238)**	(147,181)

The table below sets out the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the year end, do not necessarily reflect the amount of future cash flows involved. The notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

2015
SR'000

				Notional amounts by term to maturity				
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading								
Options	**75,799**	**75,799**	**4,256,960**	431,156	2,039,054	1,786,750	-	5,302,113
FX swaps	-	-	**187,500**	-	187,500	-	-	255,682
Special commission rate swaps	**93,076**	**93,076**	**5,859,548**	-	-	3,729,757	2,129,791	5,983,707
Structured deposits	**7,980**	**7,980**	**1,650,000**	-	-	1,650,000	-	1,250,305
Held as cash flow hedges:								
Special commission rate swaps	-	**158,044**	**3,186,563**	-	-	304,688	2,881,875	3,186,563
Total	**176,855**	**334,899**	**15,140,571**	**431,156**	**2,226,554**	**7,471,195**	**5,011,666**	**15,978,370**

10. DERIVATIVES (continued)

	2014 SR'000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading								
Options	59,133	59,133	5,187,560	983,866	2,283,694	1,920,000	-	4,158,876
Forwards	-	-	-	-	-	-	-	129,464
FX swaps	-	-	599,344	544,008	55,336	-	-	394,034
Special commission rate swaps	179,802	179,802	5,939,438	-	-	3,333,122	2,606,316	5,201,026
Held as cash flow hedges:								
Special commission rate swaps	344	139,704	3,186,563	-	-	304,688	2,881,875	2,214,651
Total	239,279	378,639	14,912,905	1,527,874	2,339,030	5,557,810	5,488,191	12,098,051

During the year, December 31, 2015 and December 31, 2014, there were no ineffectiveness in the cash flow hedges.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 **SR'000**	2014 SR'000
Current accounts	**35,682**	63,239
Money market deposits from banks and other financial institutions	**3,318,946**	3,673,237
SAMA cash borrowing	**699,883**	-
Total	**4,054,511**	3,736,476

12. CUSTOMERS' DEPOSITS

	2015 **SR'000**	2014 SR'000
Demand	**24,945,426**	26,436,759
Time	**23,495,593**	27,129,743
Other	**1,232,580**	1,002,771
Total	**49,673,599**	54,569,273

Time deposits comprise deposits received on Shari'ah Compliant Murabaha.

Other customers' deposits include SR 753.31 million (2014: SR 445million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2015 **SR'000**	2014 SR'000
Demand	**1,083,143**	605,906
Time	**4,155,957**	2,877,273
Other	**13,270**	47,518
Total	**5,252,370**	3,530,697

The foreign currency deposits are mainly in US dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

13. SUBORDINATED SUKUK

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on March 29 and September 29 each year until March 29, 2021, on which date the Sukuk will expire or mature. The proceeds of the Sukuk were used by the Bank for strengthening its capital base as the Sukuk comprises Tier II capital for Saudi Arabian regulatory purposes. The obligation of the issuer to the Sukukholders is not secured by any assets or security or guaranteed by third party and is subordinated. The Sukuk is due in 2021 with a step up in margin to 550 basis points in 2016. The Group has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. The intention of the Bank is to exercise the call option in 2016. The Sukuk is registered with Saudi Stock Exchange (Tadawul).

14. OTHER LIABILITIES

	2015 **SR'000**	2014 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**39,854**	36,937
Customers' deposits	**91,594**	90,835
Subordinated Sukuk	**6,936**	7,037
Total accrued special commission payable	**138,384**	134,809
AlJazira Philanthropic Program (see note below)	**45,218**	49,433
Accounts payable	**241,224**	215,403
Dividend payable	**27,055**	26,604
Negative fair value of derivatives (note 10)	**334,899**	378,639
Other	**335,775**	285,246
Total	**1,122,555**	1,090,134

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Group's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society.

For this purpose, the Group contributed SR 100 million to this program during 2006.

A Social Committee has been established to coordinate this program, consisting of three board members, and it is the intention of the Board of Directors to seek assistance of other independent members from the business community and the Shari'ah Board of the Group to overview and provide guidance for the activities of the program.

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (2014: 400 million shares of SR 10 each).

The shareholder of the Bank in their meeting held on May 20, 2014 (corresponding to 21 Rajab 1435) approved the increase in the share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). The legal formalities relating to the increase in share capital have been completed.

The ownership of the Bank's share capital is as follows:

	2015	2014
Saudi shareholders	**91.88%**	92.23 %
Non Saudi shareholder - National Bank of Pakistan Limited	**5.83%**	5.83 %
Non Saudi shareholder - others	**2.29%**	1.94 %

16. STATUTORY AND GENERAL RESERVES

Statutory reserve
In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 321.62 million has been transferred from net income (2014: SR 143 million). The statutory reserve is not available for distribution.

General reserve
In addition, when considered appropriate, the Bank set aside its profits to cater general banking risks.

17. OTHER RESERVES

2015	**Cash flow hedges SR' 000**	**Fair value reserve SR' 000**	**Right issue costs (see below) SR' 000**	**Total SR' 000**
Balance at beginning of the year	(147,181)	5,864	-	**(141,317)**
Net change in fair value	(18,684)	1,189	-	**(17,495)**
Transfer to consolidated statement of income	627	-		**627**
Others	-	-	(14,471)	**(14,471)**
Net movement during the year	(18,057)	1,189	(14,471)	**(31,339)**
Balance at end of the year	**(165,238)**	**7,053**	**(14,471)**	**(172,656)**

During the year, with an aim to strengthen the capital base of the Bank, the Board of Directors recommended to issue ordinary shares amounting SR 3 billion through a right issue. The issue is conditional of obtaining necessary approvals from the relevant authorities and of the General Assembly. As of December 31, 2015, the Bank incurred right issue costs amounting to SR 14.47 million. These costs will be deducted from the proceeds of the right issue. Management expects to complete the right issue during 2016.

17. OTHER RESERVES (continued)

2014	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	(3,061)	4,710	1,649
Net change in fair value	(146,939)	1,154	(145,785)
Transfer to consolidated statement of income	2,819	-	2,819
Net movement during the year	(144,120)	1,154	(142,966)
Balance at end of the year	(147,181)	5,864	(141,317)

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2015, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2015, the Group had capital commitments of SR 123.45 million (2014: SR 105.28 million) in respect of the construction of branches and IT related projects.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less credit risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by customers.

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit does not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

2015	**Within 3 months**	**3-12 months**	**(SR'000) 1-5 years**	**Over 5 years**	**Total**
Letters of credit	**542,306**	**198,068**	**-**	**-**	**740,374**
Letters of guarantee	**658,253**	**2,930,021**	**1,014,917**	**81,799**	**4,684,990**
Acceptances	**447,402**	**-**	**-**	**-**	**447,402**
Irrevocable commitments to extend credit	**-**	**-**	**150,000**	**-**	**150,000**
Total	**1,647,961**	**3,128,089**	**1,164,917**	**81,799**	**6,022,766**

2014	Within 3 months	3-12 months	(SR'000) 1-5 years	Over 5 years	Total
Letters of credit	823,316	231,128	-	-	1,054,444
Letters of guarantee	740,846	1,922,450	959,060	62,649	3,685,005
Acceptances	330,387	-	-	-	330,387
Irrevocable commitments to extend credit	-	-	76,167	110,007	186,174
Total	1,894,549	2,153,578	1,035,227	172,656	5,256,010

The outstanding unused portion of commitments as at December 31, 2015, which can be revoked unilaterally at any time by the Group, amounts to SR 4.01 billion (2014: SR 3.58 billion).

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2015 SR'000	2014 SR'000
Corporate	**6,008,048**	5,174,893
Banks and other financial institutions	**14,718**	81,117
Total	**6,022,766**	5,256,010

18. COMMITMENTS AND CONTINGENCIES (continued)

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2015 SR'000	2014 SR'000
Less than 1 year	**22,479**	9,711
1 to 5 years	**35,327**	30,611
Over 5 years	**37,590**	16,184
Total	**95,396**	56,506

19. NET SPECIAL COMMISSION INCOME

	2015 SR'000	2014 SR'000
Special commission income		
Investments held as amortised cost	**291,797**	314,886
Due from banks and other financial institutions	**37,579**	33,419
Derivatives	**155,435**	118,626
Loans and advances	**1,650,668**	1,487,938
Total	**2,135,479**	1,954,869
Special commission expense		
Due to banks and other financial institutions	**23,990**	22,544
Customers' deposits	**270,281**	284,759
Subordinated Sukuk	**26,400**	27,357
Derivatives	**213,014**	172,043
Others	**1,254**	3,084
Total	**534,939**	509,787
Net special commission income	**1,600,540**	1,445,082

20. FEES AND COMMISSION INCOME, NET

	2015 SR'000	2014 SR'000
Fees and commission income		
Local share trading	**261,799**	364,476
Takaful Ta'wuni (insurance) wakala fees	**20,877**	21,976
Loan commitment and management fees	**171,112**	205,532
Trade finance	**56,015**	48,989
International share trading	**3,477**	5,566
Mutual funds fees	**42,918**	32,962
Fees from ATM transactions	**72,032**	31,099
Fees from remittance business	**35,885**	8,494
Others	**62,901**	62,701
Total fees and commission income	**727,016**	781,795
Fees and commission expense		
Brokerage fees	**(97,117)**	(133,689)
Takaful Ta'wuni – sales commission	**(30)**	(54)
Total	**629,869**	648,052

21. TRADING INCOME, NET

	2015 SR'000	2014 SR'000
Equities	**1,398**	9,261
Mutual funds	**718**	11,472
Derivatives	**9,055**	9,711
Total	**11,171**	30,444

Trading income includes unrealized losses of SR 2.61 million (2014: Unrealised income of SR 17.39 million).

22. DIVIDEND INCOME

	2015 SR'000	2014 SR'000
Dividend income on investments	**1,874**	2,670

23. GAIN ON SALE OF OTHER REAL ESTATE

During the year, the Group sold a land with a carrying value of SR 615.97 million (2014: SR 12.39 million) previously included under "other real estate, net". The sale proceed of land amounting to SR 1,188.62 million (2014: SR 42.16 million) resulted in gain of SR 572.65 million (2014: SR 29.77 million).

24. GAIN ON NON-TRADING INVESTMENTS

	2015 **SR'000**	2014 SR'000
Held as amortised cost investments	**250**	3,684

25. OTHER OPERATING INCOME

	2015 **SR'000**	2014 SR'000
Gain / (loss) on sale of property and equipment	**3,299**	(884)
Other	**11,807**	10,603
Total	**15,106**	9,719

26. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2015 and December 31, 2014 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during the year ended December 31, 2015 and December 31, 2014 was 400 million.

The calculations of basic and diluted earnings per share are same for the Bank.

27. ZAKAT AND INCOME TAX

The Bank has filed its Zakat returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (DZIT). The Bank has received Zakat assessments for the year(s) up to 2011 raising additional demands aggregating to SR 462.2 million. The above additional exposure is mainly on account of disallowance of certain long term investments by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat assessment for the years 2012 to 2014 have not been finalized by the DZIT and the Bank is not be able to determine reliably the impact of such assessments.

The estimated Zakat and Tax for the year ended 2015 booked in these financial statements amounted to SR 31.06 million (2014: SR 13.71 million) and SR 15.39 million (2014: SR 6.79 million) respectively.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	2015 SR'000	2014 SR'000
Cash and balances with SAMA, excluding statutory deposit	**978,111**	3,688,663
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**3,922,788**	3,240,241
Total	**4,900,899**	6,928,904

The reconciliation of cash and cash equivalents to cash and balances with SAMA is as follows:

	2015 SR'000	2014 SR'000
Cash and cash equivalents at beginning of the year	**4,900,899**	6,928,904
Statutory deposit (note 3)	**2,749,933**	2,863,478
Due from banks and other financial institutions with original maturity of 90 days or less	**(3,922,788)**	(3,240,241)
Cash and cash equivalents at end of the year	**3,728,044**	6,552,141

29. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and operating liabilities.

For management reporting purposes, the Group is organized into following main operating segments:

Personal banking
Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate, small and medium sized business and institutional customers.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Takaful Ta'wuni
Takaful Ta'wuni provides protection and saving products services and is fully Shari'ah compliant and is a substitute for conventional life insurance products.

The current Takaful segment represents the insurance portfolio which will be transferred to AlJazira Takaful Ta'wuni (ATT) at an agreed value and date duly approved by SAMA. The details related to ATT are more fully explained in note 7 and note 40 to these consolidated financial statements.

Others
Others include investment in associate, inter segment income and expense eliminations and gain on sale of property.

29. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

(SR'000)

2015	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	19,624,233	23,027,684	20,031,584	440,840	11,459	128,334	63,264,134
Total liabilities	26,115,784	21,097,564	8,492,953	74,506	69,858	-	55,850,665
Trading, fee and commission income, net	197,934	135,416	26,267	260,709	20,847	(133)	641,040
Net special commission	616,500	427,306	550,080	7,044	489	(879)	1,600,540
Total operating income	893,937	577,674	672,324	270,727	21,338	485,521	2,921,521
Share of profit of an associate	-	-	-	-	-	3,103	3,103
Operating expenses:							
- impairment charge for credit losses, net	(54,296)	1,233	-	-	-	-	(53,063)
- depreciation	(41,202)	(17,761)	(10,982)	(7,194)	(1,876)	-	(79,015)
Total operating expenses	(878,406)	(384,427)	(182,832)	(161,738)	(34,091)	3,989	(1,637,505)
Net income / (loss)	15,531	193,247	489,492	108,989	(12,753)	492,613	1,287,119

29. OPERATING SEGMENTS (continued)

(SR'000)

2014	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	18,939,307	23,577,234	23,138,752	766,188	6,860	125,588	66,553,929
Total liabilities	26,094,025	24,601,413	9,563,292	92,322	44,831	-	60,395,883
Trading, fee and commission income, net	177,280	124,759	20,954	333,129	21,922	452	678,496
Net special commission	510,214	411,911	514,781	9,733	295	(1,852)	1,445,082
Total operating income	739,724	558,507	614,794	346,388	22,217	(55,385)	2,226,245
Share of profit of an associate	-	-	-	-	-	3,839	3,839
Operating expenses:							
- impairment charge for credit losses, net	(117,527)	(265,580)	-	-	-	-	(383,107)
- depreciation	(42,586)	(18,830)	(8,211)	(7,813)	(1,954)	-	(79,394)
Total operating expenses	(761,182)	(601,277)	(124,745)	(150,235)	(24,854)	4,676	(1,657,617)
Net (loss) / income	(21,458)	(42,770)	490,049	196,153	(2,637)	(46,870)	572,467

29. OPERATING SEGMENTS (continued)

a) The Group's credit exposure by operating segment is as follows:

	(SR'000)						
2015	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'wuni**	**Others**	**Total**
Assets	**19,293,382**	**22,979,775**	-	**15,525,283**	-	-	**57,798,440**
Commitments and contingencies	-	**3,349,545**	-	-	-	-	**3,349,545**
Derivatives	-	-	-	**151,406**	-	-	**151,406**

	(SR'000)						
2014	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	18,565,313	22,903,405	-	16,421,616	-	-	57,890,334
Commitments and contingencies	-	3,517,319	-	-	-	-	3,517,319
Derivatives	-	-	-	149,129	-	-	149,129

Credit exposure comprises the carrying value of the consolidated statement of financial position assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

30. CREDIT RISK

Credit risk, which is the result of a delay or failure by a counterparty to meet its financial and/or contractual obligations to the Group, is managed in accordance with the Group's comprehensive risk management control framework. Three credit committees are responsible for the oversight of credit risk, The Board Risk Committee, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

The Group assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Group's credit policy aims at maintaining the high quality of the loan portfolio and ensuring proper risk diversification. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

30. CREDIT RISK (continued)

The Group manages the credit exposures relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Majority of the debt securities included in the investment portfolio represents sovereign risk. Analysis of the Group’s investments by nature of counter-party is provided in note 5(e). For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 18. Information on the Group’s maximum credit exposure by operating segment is given in note 29.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks and other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2015 and December 31, 2014. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

The Group uses an internal credit classification and review system to manage the credit risk within its wholesale loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio as follows:

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7
- Start-up category that represents loans to newly formed businesses/ projects.

30. CREDIT RISK (continued)

Three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific allowances for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Group's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Collective allowances are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit grading allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Group's Internal Audit Division independently reviews the overall system on a regular basis.

The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

30. CREDIT RISK (continued)

a) Credit quality of financial assets

The table below shows the credit quality by class of asset.

SR'000

2015	Loans and advances: Consumer	Loans and advances: Commercial	Loans and advances: Others	Loans and advances: Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	6,409,403	-	6,409,403	4,691,538	11,100,941
Standard – medium risk	-	12,630,806	-	12,630,806	-	12,630,806
Standard – unclassified	15,943,667	4,372,874	350,845	20,667,386	-	20,667,386
Sub total - standard	15,943,667	23,413,083	350,845	39,707,595	4,691,538	44,399,133
Special mention	-	1,791,966	-	1,791,966	-	1,791,966
Sub total	15,943,667	25,205,049	350,845	41,499,561	4,691,538	46,191,099
Past due but not impaired						
Less than 30 days	35,870	429,788	-	465,658	-	465,658
30-60 days	18,209	282	-	18,491	-	18,491
60-90 days	46,105	2,750	-	48,855	-	48,855
Over 90 days	34,042	56,143	-	90,185	-	90,185
Total performing	16,077,893	25,694,012	350,845	42,122,750	4,691,538	46,814,288
Less: collective allowance	(209,891)	(241,082)	-	(450,973)	-	(450,973)
Net performing	15,868,002	25,452,930	350,845	41,671,777	4,691,538	46,363,315
Non-performing						
Total non-performing	155,993	199,334	-	355,327	-	355,327
Less: Specific allowance	(97,438)	(66,193)	-	(163,631)	-	(163,631)
Net-non performing	58,555	133,141	-	191,696	-	191,696

30. CREDIT RISK (continued)

a) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) (continued)

	SR'000 Loans and advances					
2014	Consumer	Commercial	Others	Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,390,105	-	5,390,105	4,908,991	10,299,096
Standard – medium risk	-	12,235,464	-	12,235,464	-	12,235,464
Standard – unclassified	14,740,324	7,091,648	284,539	22,116,511	-	22,116,511
Sub total - standard	14,740,324	24,717,217	284,539	39,742,080	4,908,991	44,651,071
Special mention	-	1,505,997	-	1,505,997	-	1,505,997
Sub total	14,740,324	26,223,214	284,539	41,248,077	4,908,991	46,157,068
Past due but not impaired						
Less than 30 days	78,734	129,543	-	208,277	-	208,277
30-60 days	12,741	1,404	-	14,145	-	14,145
60-90 days	8,645	4,166	-	12,811	-	12,811
Over 90 days	28,047	1,831	-	29,878	-	29,878
Total performing	14,868,491	26,360,158	284,539	41,513,188	4,908,991	46,422,179
Less: collective allowance	(182,828)	(232,553)	-	(415,381)	-	(415,381)
Net performing	14,685,663	26,127,605	284,539	41,097,807	4,908,991	46,006,798
Non-performing						
Total non-performing	223,416	146,444	-	369,860	-	369,860
Less: Specific allowance	(172,674)	(50,442)	-	(223,116)	-	(223,116)
Net-non performing	50,742	96,002	-	146,744	-	146,744

Consumer loans are unrated and are disclosed as standard-unclassified. These consumer loans mainly comprise of loans given to individuals through Shari'ah compliant products.

Others mainly comprise employee loans.

30. CREDIT RISK (continued)

Performing loans as at December 31, 2015 include renegotiated loans restructured due to deterioration in the borrower's financial position of SR 1.73 billion (2014: SR 1.52 billion).

The special mention / watch list category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that might, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention / watch list loans and advances do not expose the Group to sufficient risk to warrant a lower classification.

b) Credit quality of investments

The credit quality of investments comprising solely of debt instruments held as amortised cost (all debt instruments are under amortised cost category) is primarily managed with reference to the independent credit ratings of the counterparties. The issuers' of debt instruments rating has been considered as rated debt instrument.

Unrated investments are debt instruments which have not been rated by any external credit rating agency.

The table below shows the credit quality by class of asset.

	2015	2014
Performing	**SR'000**	SR'000
High grade (AAA – BBB)	**9,867,396**	9,857,548
Unrated	**961,749**	1,068,786
Total performing and overall investments	**10,829,145**	10,926,334

As at December 31, 2015 and December 31, 2014, no impairment was required against investments held as amortised cost.

30. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances

The tables below show an economic sector analysis of the Bank's loans and advances, net of specific and collective allowances for impairment; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2015	On-balance sheet position, net of allowances for impairment SR'000	Off-balance sheet credit – related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	**1,178,543**	**2,101**	**1,180,644**
Banks and other financial institutions	**797,099**	**1,599,067**	**2,396,166**
Agriculture and fishing	**-**	**1,329**	**1,329**
Manufacturing	**6,294,690**	**357,876**	**6,652,566**
Mining and quarrying	**-**	**150,000**	**150,000**
Electricity, water, gas and health services	**-**	**3,151**	**3,151**
Building and construction	**1,504,287**	**2,515,543**	**4,019,830**
Commerce	**9,288,788**	**675,217**	**9,964,005**
Transportation and communication	**172,869**	**25,948**	**198,817**
Services	**1,180,046**	**204,003**	**1,384,049**
Consumer loans and credit cards	**15,926,557**	**-**	**15,926,557**
Share trading	**2,439,825**	**-**	**2,439,825**
Other	**3,080,769**	**488,531**	**3,569,300**
Maximum exposure	**41,863,473**	**6,022,766**	**47,886,239**
Less: collateral for performing and non-performing	**(17,298,954)**	**(2,475,084)**	**(19,774,038)**
Net maximum exposure	**24,564,519**	**3,547,682**	**28,112,201**

30. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances (continued)

	Maximum exposure		
2014	On-balance sheet position, net of allowances for impairment SR'000	Off-balance sheet credit – related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	1,126,076	24,351	1,150,427
Banks and other financial institutions	630,365	616,820	1,247,185
Agriculture and fishing	-	2,490	2,490
Manufacturing	6,170,870	616,265	6,787,135
Mining and quarrying	80,684	76,537	157,221
Electricity, water, gas and health services	-	1,477	1,477
Building and construction	1,358,372	2,208,114	3,566,486
Commerce	9,147,818	692,053	9,839,871
Transportation and communication	218,190	64,562	282,752
Services	506,636	153,710	660,346
Consumer loans and credit cards	14,736,405	-	14,736,405
Share trading	3,406,431	-	3,406,431
Other	3,862,704	799,631	4,662,335
Maximum exposure	41,244,551	5,256,010	46,500,561
Less: collateral for performing and non-performing	(18,039,570)	(2,298,877)	(20,338,447)
Net maximum exposure	23,204,981	2,957,133	26,162,114

d) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2015 SR'000	2014 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**4,691,538**	4,908,991
Investments (note 5)	**11,201,821**	11,334,970
Loans and advances, net (note 6)	**41,863,473**	41,244,551
Other assets - margin deposits against derivatives and accrued special commission receivable (note 9)	**568,097**	650,749
Total assets	**58,324,929**	58,139,261
Contingencies and commitments, net (note 18)	**3,547,682**	2,957,133
Derivatives - positive fair value, net (note 10)	**176,855**	239,279
Total maximum exposure	**62,049,466**	61,335,673

31. GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of financial assets, commitments and contingencies, and credit exposure are as follows:

(SR'000)

2015 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	3,728,044	-	-	-	-	-	3,728,044
Due from banks and other financial institutions	3,210,942	939,416	378,934	131,568	1,569	29,109	4,691,538
Investments	11,193,450	188	-	8,183	-	-	11,201,821
Loans and advances, net	41,859,547	3,797	-	-	-	129	41,863,473
Investment in an associate	128,334	-	-	-	-	-	128,334
Total	**60,120,317**	**943,401**	**378,934**	**139,751**	**1,569**	**29,238**	**61,613,210**
Commitments and contingencies	**5,690,982**	**241,127**	**58,591**	**13,932**	**17,533**	**600**	**6,022,765**
Credit exposure (credit equivalent)							
Commitments and contingencies	3,137,501	121,297	58,591	13,932	17,533	600	3,349,454
Derivatives	83,181	3,050	22,346	42,829	-	-	151,406

Certain international mutual funds domicile in the Kingdom of Saudi Arabia has been classified under international category in note 5(a) to these financial statements has been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

31. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2014 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	6,552,141	-	-	-	-	-	6,552,141
Due from banks and other financial institutions	3,729,887	569,273	84,292	523,776	387	1,376	4,908,991
Investments	11,327,788	188	-	6,994	-	-	11,334,970
Loans and advances, net	41,236,791	7,594	-	-	-	166	41,244,551
Investment in an associate	125,588	-	-	-	-	-	125,588
Total	62,972,195	577,055	84,292	530,770	387	1,542	64,166,241
Commitments and contingencies	4,957,586	253,376	29,108	3,385	12,155	400	5,256,010
Credit exposure (credit equivalent) Commitments and contingencies	3,229,954	135,590	59,649	85,177	6,749	200	3,517,319
Derivatives	81,976	3,050	22,547	41,556	-	-	149,129

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

b) The distributions by geographical concentration of non-performing loans and advances and impairment allowance for credit losses are as follows:

	Non performing loans, net		**Impairment for credit losses**	
	2015 SR' 000	2014 SR' 000	**2015 SR' 000**	2014 SR' 000
Kingdom of Saudi Arabia	**355,327**	369,860	**614,604**	638,497

32. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2015 **SR'000**	2014 SR'000
US Dollar	**26,350**	11,265
Euro	**18,951**	14,646
Pound Sterling	**15,269**	27,864
Japanese Yen	**46,768**	40,827

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2015**		2014	
	Increase/ decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
Euro	**± 12.26**	**± 2,323**	± 6.27	± 918
Pound Sterling	**± 8.54**	**± 1,304**	± 5.71	± 1,591
Japanese Yen	**± 8.2**	**± 3,835**	± 7.98	± 3,258

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVTIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

32. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

	2015		2014	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Al Thoraiya	**± 5.91%**	**± 2,946**	± 4.17	± 2,118
Al Khair	**± 5.66%**	**± 1,784**	± 5.12	± 1,612
Al Mashareq	**± 9.07%**	**± 4,086**	± 7.12	± 2,809
Al Qawafel	**± 17.06%**	**± 17,474**	± 2.37	± 2,534
Global Emerging Market	**± 5.66%**	**± 1,619**	± 5.12	± 1,701
Others	**± 17.06%**	**± 11,008**	± 2.37	± 1,605

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2015 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2015		2014	
Market index	**Increase / decrease in index %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	**± 17.06%**	**± 6,666**	± 2.37	± 1,628

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2015 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2015**		2014	
	Increase / decrease in basis points	**Sensitivity of special commission income SR'000**	Increase / decrease in basis points	Sensitivity of special commission income SR'000
SR	± 25	**± 10,089**	± 25	± 5,726
USD	± 25	**± 3,260**	± 25	± 1,652
AED	± 25	**± 2**	± 25	± 3

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**	**Effective commission rate**
Assets							
Cash and balances with SAMA	**14,999**	**-**	**-**	**-**	**3,713,045**	**3,728,044**	**-**
Due from banks and other financial institutions	**3,186,250**	**768,750**	**-**	**-**	**736,538**	**4,691,538**	**0.49%**
Investments	**3,849,347**	**487,243**	**304,846**	**6,187,709**	**372,676**	**11,201,821**	**2.68%**
Loans and advances, net	**13,194,862**	**17,574,921**	**10,665,569**	**77,358**	**350,763**	**41,863,473**	**3.97%**
Total assets	**20,245,458**	**18,830,914**	**10,970,415**	**6,265,067**	**5,173,022**	**61,484,876**	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions	4,014,133	-	-	-	40,378	4,054,511	0.61%
Customers' deposits	15,270,913	7,237,978	986,702	-	26,178,006	49,673,599	1.03%
Subordinated Sukuk	1,000,000	-	-	-		1,000,000	2.64%
Equity	-	-	-	-	7,413,469	7,413,469	-
							-
Total liabilities and Equity	20,285,046	7,237,978	986,702	-	33,631,853	62,141,579	
On-balance sheet Gap	(39,588)	11,592,936	9,983,713	6,265,067	(28,458,831)	(656,703)	
Commission rate sensitivity – off balance sheet	1,500,000	1,686,563	(304,688)	(2,881,875)	-	-	
Total commission rate sensitivity gap	1,460,412	13,279,499	9,679,025	3,383,192	(28,458,831)	(656,703)	
Cumulative commission rate sensitivity gap	1,460,412	14,739,911	24,418,936	27,802,128	(656,703)	(1,313,406)	

(SR'000)

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	2,960,000	-	-	-	3,592,142	6,552,142	-
Due from banks and other financial institutions	3,443,750	656,250	-	-	808,991	4,908,991	0.42%
Investments	3,845,840	587,939	304,846	6,187,709	408,636	11,334,970	2.64%
Loans and advances, net	13,366,928	17,896,589	9,464,707	231,787	284,539	41,244,550	3.82%
Total assets	23,616,518	19,140,778	9,769,553	6,419,496	5,094,308	64,040,653	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions	3,673,166	-	-	-	63,310	3,736,476	0.39%
Customers' deposits	16,739,991	10,269,442	120,310	-	27,439,530	54,569,273	0.93%
Subordinated Sukuk	-	-	1,000,000	-	-	1,000,000	2.69%
Equity	-	-	-	-	6,158,046	6,158,046	-
Total liabilities and Equity	20,413,157	10,269,442	1,120,310	-	33,660,886	65,463,795	
On-balance sheet Gap	3,203,361	8,871,336	8,649,243	6,419,496	(28,566,578)	(1,423,142)	
Commission rate sensitivity – off balance sheet	1,500,000	1,686,563	(304,688)	(2,881,875)	-	-	
Total commission rate sensitivity gap	4,703,361	10,557,899	8,344,555	3,537,621	(28,566,578)	(1,423,142)	
Cumulative commission rate sensitivity gap	4,703,361	15,261,260	23,605,815	27,143,436	(1,423,142)	(2,846,284)	

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2015 **SR' 000** **Long / (Short)**	2014 SR'000 Long /(Short)
USD	**470,928**	912,003
AED	**11,480**	15,520

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2015. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2015**		2014	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	±0.05	**±235**	±0.05	±456
AED	±0.05	**±6**	±0.05	±8

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

iii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVTOCI at December 31, 2015 and December 31, 2014 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2015**		2014	
	Increase / decrease in index %	**Effect on shareholders' equity (other reserve) SR'000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	**±5.66%**	**±463**	±5.12%	±358

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 75% of the value of Murabaha placements with SAMA.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, Murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

33. LIQUIDITY RISK (continued)

The liquidity ratio during the year was as follows:

	2015	2014
	%	%
As at December 31	**20**	29
Average during the year	**27**	28
Highest	**35**	34
Lowest	**20**	22

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2015 and December 31, 2014 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	(SR' 000)					
	On demand	**with in 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
As at December 31, 2015						
Due to banks and other financial institutions	**40,378**	**4,371,412**	**-**	**-**	**-**	**4,411,790**
Customers' deposits	**23,953,831**	**17,171,333**	**8,272,398**	**474,115**	**-**	**49,871,677**
Subordinated Sukuk	**-**	**1,013,503**	**-**	**-**	**-**	**1,013,503**
Derivatives	**-**	**434,999**	**2,299,056**	**7,664,151**	**5,318,445**	**15,716,652**
Total undiscounted financial liabilities	**23,994,209**	**22,991,247**	**10,571,454**	**8,138,266**	**5,318,445**	**71,013,622**
Financial liabilities						
As at December 31, 2014						
Due to banks and other financial institutions	63,240	3,684,774	-	-	-	3,748,014
Customers' deposits	26,457,926	18,332,229	10,390,020	117,612	-	55,297,787
Subordinated Sukuk	-	6,587	13,176	1,006,588	-	1,026,351
Derivatives	-	1,619,717	2,304,007	5,621,670	5,566,802	15,112,196
Total undiscounted financial liabilities	26,521,166	23,643,307	12,707,203	6,745,870	5,566,802	75,184,348

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

(SR' 000)

2015	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	3,728,044	3,728,044
Due from banks and other financial institutions	-	3,922,788	3,922,788	768,750	-	768,750	-	4,691,538
Investments	-	41,056	41,056	2,826,456	7,961,633	10,788,089	372,676	11,201,821
Loans and advances, net	9,478,962	12,666,566	22,145,528	11,641,835	8,076,110	19,717,945	-	41,863,473
Total assets	9,478,962	16,630,410	26,109,372	15,237,041	16,037,743	31,274,784	4,100,720	61,484,876
Liabilities and shareholders' equity								
Due to banks and other financial institutions	-	4,054,511	4,054,511	-	-	-	-	4,054,511
Customers' deposits	5,018,609	14,135,033	19,153,642	5,791,784	-	5,791,784	24,728,173	49,673,599
Subordinated Sukuk	1,000,000	-	1,000,000	-	-	-	-	1,000,000
Shareholders' equity	-	-	-	-	-	-	7,413,469	7,413,469
Total liabilities and shareholders' equity	6,018,609	18,189,544	24,208,153	5,791,784	-	5,791,784	32,141,642	62,141,579

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2014	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	6,552,141	6,552,141
Due from banks and other financial institutions	-	3,443,750	3,443,750	656,250	-	656,250	808,991	4,908,991
Investments	-	-	-	1,925,474	9,000,860	10,926,334	408,636	11,334,970
Loans and advances, net	8,712,061	12,718,570	21,430,631	10,971,540	8,842,380	19,813,920	-	41,244,551
Total assets	8,712,061	16,162,320	24,874,381	13,553,264	17,843,240	31,396,504	7,769,768	64,040,653
Liabilities and shareholders' equity								
Due to banks and other financial institutions	-	3,673,237	3,673,237	-	-	-	63,239	3,736,476
Customers' deposits	5,313,808	15,367,747	20,681,555	7,040,256	-	7,040,256	26,847,462	54,569,273
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Shareholders' equity	-	-	-	-	-	-	6,158,056	6,158,056
Total liabilities and shareholders' equity	5,313,808	19,040,984	24,354,792	8,040,256	-	8,040,256	33,068,757	65,463,805

34. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of financial instruments, except for investments as amortised cost, are not significantly different from the carrying values included in the consolidated financial statements (refer note 5(d)). The fair values of loans and advances, commission bearing customer deposits, subordinated Sukuk, due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the duration of due from and due to banks. The estimated fair values of other investments held at amortised cost are based on quoted market prices, when available or pricing models when used in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5 (d).

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking):

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: valuation techniques for which any significant input is not based on observable market data.

	2015 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS				
Mutual Funds	**321,981**	**-**	**-**	**321,981**
Equities	**39,075**	**-**	**-**	**39,075**
FVTOCI				
Equities	**8,182**	**-**	**-**	**8,182**
Derivatives	**-**	**176,855**	**-**	**176,855**
Total	**369,238**	**176,855**	**-**	**546,093**
Financial liabilities				
Derivatives	**-**	**334,899**	**-**	**334,899**
Total	**-**	**334,899**	**-**	**334,899**

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

	2014 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS				
Mutual funds	329,530	-	-	329,530
Equities	68,674	-	-	68,674
FVTOCI				
Equities	6,994	-	-	6,994
Derivatives	-	239,279	-	239,279
Total	405,198	239,279	-	644,477
Financial liabilities				
Derivatives	-	378,639	-	378,639
Total	-	378,639	-	378,639

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

During the year, there were no transfers between levels in 2015 and 2014. New investments acquired during the year are classified under the relevant levels.

Investments amounting to SR 3.44 million (2014: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted on an arms-length basis. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2015 **SR' 000**	2014 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**625**	492
Due to banks and other financial institutions	**340**	186
Commitments and contingencies	**600**	2,245
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**402,909**	798,446
Customers' deposits	**89,918**	4,491,008
Other receivables	**--**	13,118
Commitments and contingencies	**4,202**	34,148

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2015 **SR' 000**	2014 SR'000
Special commission income	**21,979**	14,668
Special commission expense	**53,887**	44,852
Fees and commission income	**32**	74
Directors' remuneration	**5,267**	6,080

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2015 **SR' 000**	2014 SR'000
Short-term employee benefits	**84,803**	74,890
Termination benefits	**21,669**	18,141

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

36. COMPENSATION

		2015		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no objection	**17**	**42,235**	**14,375**	**56,610**
Employees involved in control functions	**169**	**70,099**	**6,001**	**76,100**
Employees involved in risk taking activities	**211**	**72,618**	**11,519**	**84,137**
Other employees	**2,038**	**458,290**	**53,256**	**511,546**
Outsourced employees	**518**	**87,613**	**2,085**	**89,697**
Total	**2,953**	**730,855**	**87,236**	**818,090**
Variable compensation (accrual basis) other employee related benefits		**116,174**		
Other employee related benefits		**61,872**		
Total salaries and employee-related expenses		**908,901**		

		2014		
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR' 000	Variable compensation(on cash basis) SR' 000	Total SR' 000
Senior executives that require SAMA no objection	17	34,396	12,700	47,096
Employees involved in control functions	131	49,056	4,954	54,010
Employees involved in risk taking activities	186	59,580	11,628	71,208
Other employees	1,950	388,633	47,690	436,323
Outsourced employees	496	60,348	2,025	62,373
Total	2,780	592,013	78,997	671,010
Variable compensation (accrual basis) other employee related benefits		97,683		
Other employee related benefits		32,176		
Total salaries and employee-related expenses		721,872		

36. COMPENSATION (continued)

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group’s staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to labour law of the Kingdom of Saudi Arabic and Group’s internal policies, staff end of services benefits is due for payment at the end of an employee’s period of services. The end of service benefit outstanding at end of December 2015 amounted to SR 195.6 million (2014: SR 152.48 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;

- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

SAMA has issued its final guidelines regarding implementation of Basel III Framework effective January 1, 2013. The new framework has brought significant amendments in the computation of regulatory capital and Pillar I risk weighted assets. The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework:

	2015		2014	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**7,578,707**	**13.79%**	6,299,361	11.79%
Supplementary capital (Tier 2)	**1,121,227**	**-**	1,209,132	-
Core and supplementary capital (Tier 1 + Tier 2)	**8,699,934**	**15.83%**	7,508,493	14.05%

37. CAPITAL ADEQUACY (continued)

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2015	2014
	SR '000	SR '000
Credit risk	**49,807,212**	48,209,708
Operational risk	**3,952,088**	3,481,813
Market risk	**1,215,251**	1,750,988
Total pillar-1 – risk weighted assets	**54,974,551**	53,442,509

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Twelve such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel Commodities Fund, AlJazira Residential Projects Fund, AlJazira Residential Projects Fund 2, AlJazira GCC Income Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund and AlJazira Global Emerging market Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund and AlJazira Residential Projects Fund 2 which are closed-ended funds. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invests in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha.

The objective of AlJazira Global Emerging Market Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES (continued)

The Group also provides investment management and other services to the policy holders of its Takaful Ta'wuni program.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 27.9 billion (2014: SR 34.1 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 2.6 billion (2014: SR 2.3 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	**Nature and purpose**	**Interest held by the Group**	**Total assets SR '000**
Investment in funds	Mutual Funds managed by Aljazira Capital Company (Subsidiary of the Bank Al Jazira)	**% of holding**	
	Al- Mashareq Japanese Equities Fund	19.45%	237,792
	Al- Thoraiya European Equities Fund	23.54%	212,768
	AlJazira Global Emerging Markets Fund	76.21%	37,944
	AlJazira Diversified Conservative Fund	93.34%	10,718
	AlJazira GCC Equity Fund	67.83%	32,957
	Al-Jazira Residential Projects Fund	43.64%	42,290

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	**SR '000**
Al – Mashareq Japanese Equities Fund	45,049
Al Thoraiya European Equities Fund	49,854
AlJazira Global Emerging Markets Fund	28,608
AlJazira Diversified Conservative Fund	9,956
AlJazira GCC Equity Fund	22,185
AlJazira Residential Projects Fund	16,734

40. TAKAFUL TA'WUNI

Takaful Ta'wuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'wuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2015. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2016.

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
IFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities : Applying the Consolidation Exception	1 January 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016

42. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with current year presentation.

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on Jumada Al Awal 6, 1437H (corresponding to February 15, 2016).

44. BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.baj.com.sa and in its annual report, as required by SAMA.